Financial Improvement Program Panel Discussion

Panel Moderator Mr. Mark Easton (FMO)

ASMC-PDI

Department of the Navy Financial Improvement Program (FIP)

- Mr. Mark Easton (FMO) Panel Moderator
  - Panelist Introductions
- FIP Strategy and Approach
  - Strategy: Business Process Transformation
  - Phases:
    - Discovery
    - Integration
    - Remediation
  - Characteristics of Success
    - Enterprise Solutions
    - Sustainability and Change Management
    - Knowledge Management

The Department of the Navy's Financial Improvement Program (FIP) is rooted in Business Transformation, with elements of BEA, ERP, FAM, and FIAR.

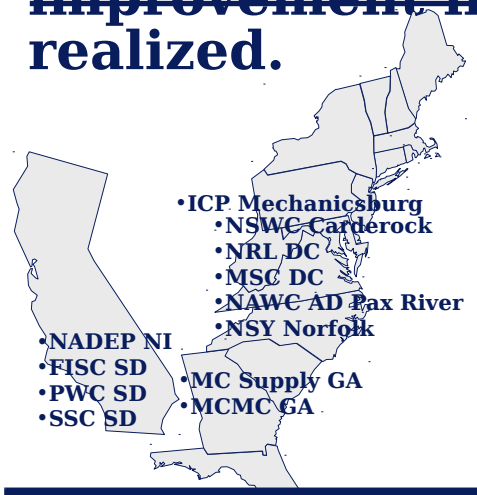
Key Elements of DON Business Transformation are:

- The DoD Business Enterprise Architecture is the **blueprint** supporting standardized business processes and data standards.
- The Navy **cornerstone** to business transformation is the Enterprise Resource Planning System (ERP) implemented using reengineering business processes. ERP is a modern, integrated commercial off-the-shelf software product.
- The Functional Area Manager (FAM) process is our **transition tool**, rationalizing current business systems using a portfolio management approach.
- The Department of Navy Financial Improvement Program, operating within the framework of the FIAR, **integrates** key elements of systems, processes and human capital. It also documents and presents business processes for audit.

Overview and Discovery phase perspectives

- What has the Discovery phase identified?
- Describe a particular Discovery effort in which your firm is involved
  - The Scope
  - The approach
  - Observations

The Navy/Deloitte team analyzed high-level NWCF business processes, identified challenges, and has begun improvement initiatives. Benefits have already been realized.



Major Challenges Identified:

- Lack of focus on cash management
- Incomplete cash reconciliations
- Inconsistent accrual treatment
- Lack of rigorous cash forecasting
- Inconsistent roles and responsibilities with DFAS field sites
- UMDs / UMCs require significant rework / distort balances
- Ineffective cash metrics

Improvements Underway:

- Increasing understanding of cash management techniques- Field site visits and Cash Conference
- Stabilized and standardized business processes to optimize cash requirements and business metrics
  - Focus on cash reconciliations
  - Standardizing accrual and advance treatment
  - Implementing cash metrics
  - Standardizing cash forecasting tool
- Defining roles and responsibilities with DFAS field sites

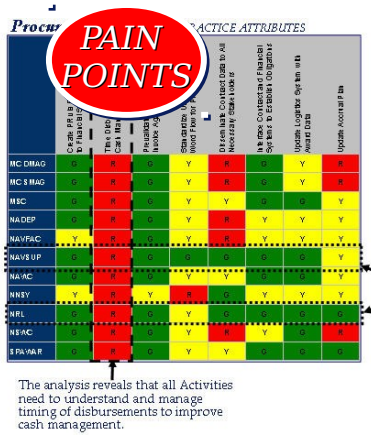
Realized Benefits

- Built insight into standardizing NWCF cash business cycles, to reduce cash requirements, validate suspected challenges, and identify improvements for business practices, financial systems and processes for cash management
- Documented processes and identified best practices across the NWCF (11 sites)- charts supporting cash, A/P, and A/R allow for rapid acceleration and 50% reduction in effort for A/P and A/R packages for Financial Improvement Program
- Documented DFAS relationship and processes
- Developed a standard set of processes for the NWCF, to be used as guideline for transformation and provide options for ERP deployment
- Prepared roadmap to accurately project, manage, and reconcile Activity cash with US Treasury
- Developed guide to move towards standard processes and improved cash management practices

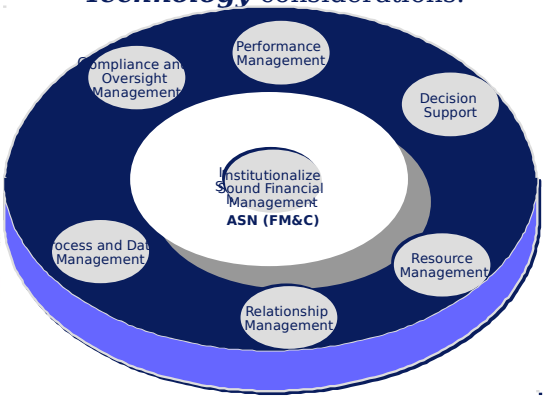
- Aligned cash management of all NWCF Activities with DON strategic goals to increase cash management effectiveness and efficiency
- Formed recommendations for more appropriate cash balances to meet operational and disbursement requirements
- Presented options for comprehensive cash reporting on a timelier basis
- Developed a plan for more accurate and timely bill postings to clarify **$88M** of A/R postings
- Maintaining consolidated accounts will prevent increase in cash balance of **$640M**

- Investigated advances and accruals- flattening could reduce swing in cash balance and overall cash requirements by **$100M**
- Identified the potential to increase forecasting accuracy by **$50M** in Research and Development community. Other areas to

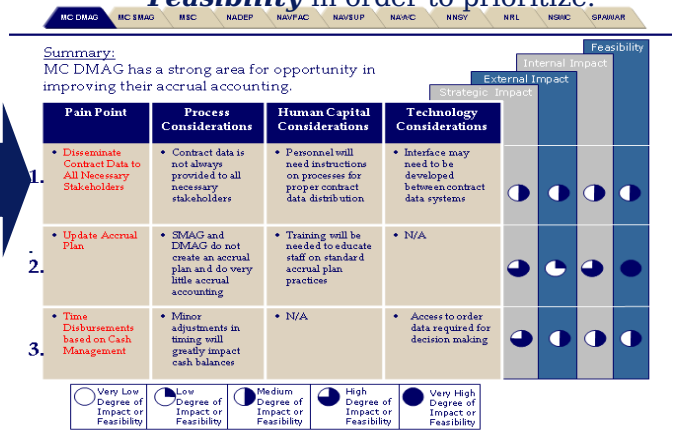
Pain Points were identified at each location allowing for corrective action, while maintaining a holistic perspective on remediation.


PAIN POINTS
The analysis reveals that all Activities need to understand and manage timing of disbursements to improve cash management.
The analysis reveals NAVSUP & NRL display leading practices across Procurement "To-Be" processes.

Deloitte CFO Framework for ***People***, ***Process***, and ***Technology*** considerations.



Analyze for ***Degree of Impact*** and ***Feasibility*** in order to prioritize.


MC DMAG
MC SMAG
MSC
NADEP
NAVFAC
NAVSUP
NAVAC
NNSY
NRL
NSWC
SPAWAR
Summary:
MC DMAG has a strong area for opportunity in improving their accrual accounting.
Feasibility
Internal Impact
External Impact
Strategic Impact
Pain Point
Process Considerations
Human Capital Considerations
Technology Considerations
1. Disseminate Contract Data to All Necessary Stakeholders
• Contract data is not always provided to all necessary stakeholders
• Personnel will need instructions on processes for proper contract data distribution
• Interface may need to be developed between contract data systems
2. Update Accrual Plan
• SMAG and DMAG do not create an accrual plan and do very little accrual accounting
• Training will be needed to educate staff on standard accrual plan practices
• N/A
3. Time Disbursements based on Cash Management
• Minor adjustments in timing will greatly impact cash balances
• N/A
• Access to order data required for decision making
Very Low Degree of Impact or Feasibility
Low Degree of Impact or Feasibility
Medium Degree of Impact or Feasibility
High Degree of Impact or Feasibility
Very High Degree of Impact or Feasibility

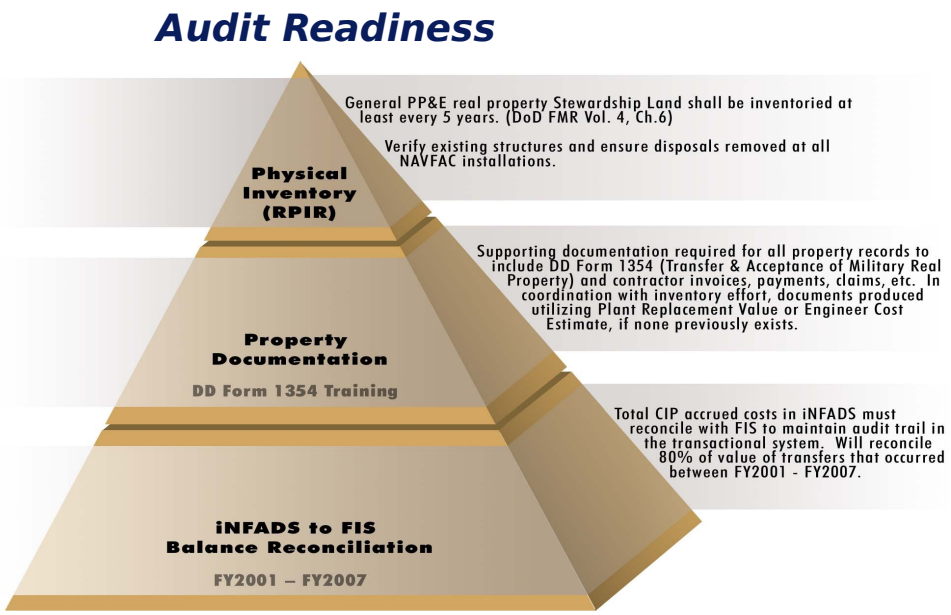
Prioritized Actionable Results:

Initiative Priority Group	NWCF Activity	Pain Point	Challenge	Initiative / Benefit
1	All	**Cash Forecasting** - Use of Analysis Tool with Links to Financial Statement Forecasts	Currently all sites do not have an accurate forecasting process.	A best practice tool for cash forecasting was identified and institutionalized at all activities. This tool will allow NWCF sites to manage cash more efficiently.
2	All	**Timeliness of Cash Reporting** - Cross Disbursement Processing	Disbursements from outside the DFAS Cleveland network (cross disbursements) occur towards month end and contain summary and detail records.	Real time processing, and the elimination of summary records will increase visibility into actual cash balances.
	All	**Timeliness of Cash Reporting** - IPAC Bill Processing	IPAC bills are frequently processed on a monthly batch.	IPAC processing aligned with bill runs will decrease lag between billing and collection.
	All	**Procurement** - Accruals based on Documentation	Inconsistent accrual policies result in end of year adjustments leading to large billings and collections.	A documented accrual policy will stabilize the cash curve by minimizing end of year cash surges and increasing mid year collections.
	All	**Sales and Collections** - Advances - Implementing OMB Guidance on Federal Customer Orders	Sites are collecting advances from Federal customers unnecessarily, resulting in tremendous swings in cash flow.	OMB guidance on advances for customer orders will stabilize the cash curve by preventing tremendous cash infusions.

- Prioritized remediation activities can be performed at individual NWCF Activities
- Plans for remediation incorporate NWCF wide business needs

The Navy/Bearingpoint Team Real Property Assertion Components

•Problem:
- Transactional accounting system (FIS) does not match Real Property Database (iNFADS) values for DON real property
- DD1354 not used consistently resulting in incorrect/inconsistent real property values
- Real property inventories not performed as required per FMR


Audit Readiness
General PP&E real property Stewardship Land shall be inventoried at least every 5 years. (DoD FMR Vol. 4, Ch.6)
Verify existing structures and ensure disposals removed at all NAVFAC installations.
Physical Inventory (RPIR)
Supporting documentation required for all property records to include DD Form 1354 (Transfer & Acceptance of Military Real Property) and contractor invoices, payments, claims, etc. In coordination with inventory effort, documents produced utilizing Plant Replacement Value or Engineer Cost Estimate, if none previously exists.
Property Documentation
DD Form 1354 Training
Total CIP accrued costs in iNFADS must reconcile with FIS to maintain audit trail in the transactional system. Will reconcile 80% of value of transfers that occurred between FY2001 - FY2007.
iNFADS to FIS Balance Reconciliation
FY2001 – FY2007

•Solution:
- Dedicated FIS-to-iNFADS reconciliation effort; What is being reported? What should be reported?
- DD1354 training material creation/dissemination; metrics creation/monitoring
- Coordination of real property inventories with FIS/iNFADS reconciliation to ensure accurate values and sustainment funding

The Integration Phase

- **Overview of Integration Phase**

  - Remediation planning and the development of framework to assign priorities

    (Bill Mcleary)

  - Materiality Analysis and Transformation resulting in Audit readiness

    (Chris Young)

  - Financial Statement Compilation

    (Robert Shraven)

We are attempting to balance Focus area execution while maintaining momentum within field commands by ~~developing a clear integration strategy.~~

Focus Areas

- Formed integrated project teams
- Engage lead functional organizations (including executive leadership)
- FMO is the advocate

- Focused on Deficiency Correction
- Generating process documentation for validation packages

Focus Area	Lead
Real Property	NAVFAC, CNI
Env. Liabilities- DERP/Non-DERP	NAVFAC
Env. Liabilities- Weapons Systems	NAVSEA
FBWT	DFAS CL, FMO
Military Equipment	PEO PMs

Command FIPs

- Established Command FIPs with IDIQ Contract support
- Emphasis on discovery in non-focus areas
- Outcomes will be documented process and verification of audit readiness or deficiency identification

Remediation Activities

- **Overview of planned remediation activities and discussion of best practices**
  - **Lessons learned from other engagements**
  - **Expectations for Department of Navy and local major commands**
  - **Metrics of success**
- **Questions and Closing Remarks**